



New Zealand's Health System Walks Pathology/Lab Testing Tightrope

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Government efforts to reduce funding for lab tests may boomerang in coming years

Dateline: Christchurch, New Zealand—Here in the land of [kiwis](#) and [enthusiastic rugby fans](#), pathology and laboratory services don't seem to get much respect from regional health districts of the New Zealand Department of Health. There are fears that too much of this type of budget cutting will undermine the quality of laboratory testing in those communities.

In at least two major metropolitan regions of New Zealand, the regional health districts are using single-source tenders (contract bidding) for pathology and laboratory testing services as a way to drive down the price they pay for laboratory testing. One consequence of these tender efforts is an immediate reduction in the number of private pathology testing providers in these cities, since just one medical laboratory is granted an exclusive, multi-year contract to

provide laboratory testing services to office-based physicians across that region.

These single-source pathology service tenders have achieved one government goal: they have driven down the reimbursement paid by the government health system for lab testing. In some cases, the regional health district has seen the winning lab agree to prices that are about 20% less! But these immediate government benefits come with a serious long term cost. In these cities, pathology labs which lose the tender are forced to either cease operations or merge themselves with the winning bidder as a way to save the jobs of their lab staffs. Those independent laboratory medicine resources thus disappear and are no longer available to the citizens and medical community in that region.

Pathologists and laboratory scientists in New Zealand have genuine concerns that the government health system is undermining the financial stability of medical laboratories. Moreover, because only one laboratory is left in operation in these communities, pathologists wonder what will happen to pathology services when that exclusive contract comes up for rebid.

Your Dark Daily editor is in New Zealand this week to participate in several pathology conferences and conduct site visits of medical laboratories. At every stop, pathologists and laboratory scientists are discussing these unfolding events. The big story here is the major transition of laboratory test providers that is about to occur in Auckland, New Zealand.

As many pathologists and lab directors in the United States know, in 2006, the [Auckland Regional District Health Boards](#) (ARDHBs) awarded an exclusive, eight-year NZ\$560 million lab testing contract to [Healthscope Ltd.](#) and its

subsidiary, [Labtests Auckland Ltd.](#) This contract award meant that [Diagnostic Medlab](#) of Auckland, a subsidiary of [Sonic Healthcare Ltd.](#), would no longer be allowed to provide medical lab testing services. Sonic challenged this contract award decision in court, on grounds of irregularities and conflicts of interest in the tender (contract) award.

Sonic Healthcare won its court case, but Healthscope's appeal to overturn that court decision was upheld by a higher court. As it stands now, Labtest/Healthscope is proceeding to construct a brand new lab facility in Auckland, equip it, and hire a laboratory staff capable of handling the testing needs of more than 8,000 patients per day. This new laboratory is scheduled to launch service in September 2009. At the same time, the Auckland laboratory that Diagnostic Medlab constructed earlier in the decade, at the start of its earlier multi-year contract with ARDHBs, is expected to close its doors.

Here is the rub. Events unfolding in Auckland are eerily similar to what took place in Wellington, New Zealand. In 2006, Wellington's Capital and [Coast District Health Board](#) issued a tender for pathology services. To win this tender, two competing private pathology companies in the region formed a joint venture. [Aotea Pathology](#) was created by the merger of Medical Laboratory Wellington (owned by [Abano Healthcare](#)) and Valley Diagnostic Laboratories (owned by Sonic Healthcare). This joint venture won the five-year exclusive contract, worth NZ\$102 million, to provide pathology and lab testing services to office-based physicians for Wellington and the surrounding region.

As a result of this tender process, Wellington lost one of its two established pathology providers. Now, with two years remaining on the exclusive contract, pathologists across New Zealand wonder if the local health district will renew its exclusive contract with Aotea Pathology. Or, similar to what happened to

Diagnostic Medlab in Auckland, at contract renewal time, will Wellington's Capital and Coast District Health Board give an exclusive contract to a new pathology provider? If so, that provider will either have to negotiate a purchase of Aotea Pathology's laboratory, or it will have to build, equip, and staff a brand-new pathology laboratory in order to meet the terms of its contract.

Thus, in two of New Zealand's most populous cities, regional health districts—as they relentlessly pursue lower costs—have each forced the closure or elimination of one of the major pathology companies in their respective markets. This is why pathologists in many countries across the world are aware of the situation in Auckland. They recognize that, by these actions, New Zealand may become the first developed country in the world to learn what happens to the entire healthcare system when deep budget cuts finally leave medical laboratories with insufficient reimbursement.

Such a situation would likely mean that laboratory test providers in New Zealand would lack the funding and resources to offer physicians and patients a full menu of state-of-the-art diagnostics tests. It could also mean that medical laboratories would lack adequate resources and skilled staff to sustain the quality of test results at a world-class level of quality, accuracy, reliability, and reproducibility. In either case, the quality of patient care would be negatively affected.

It is frequently speculated that government health programs would be foolish to aggressively shave back the 4% to 5% of their total spent on healthcare that pays for anatomic pathology and clinical laboratory testing services. That's because effective utilization of laboratory tests allows physicians to make faster, more accurate diagnosis—then select appropriate therapies. Often, a \$20 laboratory test, ordered at the right moment, saves the health system tens of

thousands of dollars because the patient gets the right care before his/her condition gets worse. Events unfolding in New Zealand may allow us, within just a few years, to have a real-world example of what happens when aggressive cost-cutting finally takes too much money off the table, thereby undermining the quality, capacity, and reliability of the laboratory testing which underpins the broader healthcare system.

Your Dark Daily editor,

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